



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAC 730.3.B.01/2006-03

November 9, 2005
05-PAC-067(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Revised FAR 31.205-44, Training and Education Costs

SUMMARY

FAR 31.205-44, Training and education costs, was revised to streamline the cost principle and to increase clarity by restructuring the rule to list only specifically unallowable costs. The revised rule provides that job related training and education costs are generally allowable, except for six types of expressly unallowable costs that are retained from the previous cost principle. In addition to the provisions of FAR 31.205-44, the allowability of a contractor's training and education costs should be determined based on the provisions of FAR 31.201-3, Determining reasonableness. The revised cost principle is effective on contracts awarded on or after October 31, 2005.

GUIDANCE

The revised rule restructures FAR 31.205-44, Training and education costs, to clearly state that the costs of training and education are generally allowable if such training and education are related to the field in which the employee is working or may reasonably be expected to work. The revised cost principle identifies six types of expressly unallowable costs that are retained from the previous rule. The six expressly unallowable costs are:

- (1) Overtime compensation for training and education;
- (2) Salaries for time spent attending undergraduate level and part-time graduate level classes during working hours, except when unusual situations prevent attendance at classes outside of regular working hours;
- (3) Cost for full-time graduate level education in excess of two years;
- (4) Grants to educational or training institutions;
- (5) Training or education costs for other than bona fide employees; and,
- (6) Contractor contributions to college savings plans for employee dependents.

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The restructured cost principle eliminates the specific requirements and limitations on the allowability of costs associated with the various categories and types of training and education, such as vocational training, part-time college level education, full time education, and specialized programs. The allowability of the costs related to any of these types of training and education should be determined based on the specific unallowable costs listed in FAR 31.205-44 and the reasonableness criteria provided in FAR 31.201-3.

The significant changes in the allowability of the costs are noted below:

(1) Prior to the revised rule, any costs related to full-time undergraduate level education were unallowable. The revised rule continues to disallow salaries for attending undergraduate level classes, with certain exceptions as noted above, but other costs, such as tuition and text books, are no longer unallowable.

(2) The revised rule has eliminated the 156-hour limitation on allowable salaries for attending part-time college level classes when circumstances did not permit attendance outside of regular working hours. The allowability of any such salaries should be determined based on the reasonableness criteria in FAR 31.20-3.

(3) The revised rule has eliminated the provision permitting an advance agreement that would set forth allowable costs in excess of the limitations contained in the cost principle.

The specific changes to FAR 31.205-44, Training and education costs, are provided in the enclosure in the line-in line-out format.

CONCLUDING REMARKS

Field audit office personnel should direct questions regarding this memorandum to their regional offices. Regional offices should direct their questions to Accounting and Cost Principles Division, at (703) 767-2250.

/s/ Terry M. Schneider
/for/ Earl J. Newman
Assistant Director
Policy and Plans

Enclosure:

Revised Rule – Line In / Line Out

DISTRIBUTION: C

FAR 31.205-44, Training and Education Costs
Revised Rule Line-In/Line-Out

*The baseline is the FAR language from FAC 84-29, dated August 12, 1987. Final changes published in Federal Register at 70 FR 57470, dated September 30, 2005, are noted in **[bold]** for additions to the text and strikethrough for deletions.*

31.205-44 Training and education costs.

[Costs of training and education that are related to the field in which the employee is working or may reasonably be expected to work are allowable, except as follows:

(a) Overtime compensation for training and education is unallowable.]

~~(a) Allowable costs. Training and education costs are allowable to the extent indicated below.~~

~~(b) Vocational training. Costs of preparing and maintaining a noncollege-level program of instruction, including but not limited to on-the-job, classroom, and apprenticeship training, designed to increase the vocational effectiveness of employees, are allowable. These costs include—~~

~~(1) Salaries or wages of trainees (excluding overtime compensation);~~

~~(2) Salaries of the director of training and staff when the training program is conducted by the contractor;~~

~~(3) Tuition and fees when the training is in an institution not operated by the contractor, and/or~~

~~(4) Training materials and textbooks.~~

~~(c) Part time college level education. Allowable costs of part time college education at an undergraduate or postgraduate level, including that provided at the contractor's own facilities, are limited to—~~

~~(1) Fees and tuition charged by the educational institution, or, instead of tuition, instructors' salaries and the related share of indirect cost of the educational institution, to the extent that the sum thereof is not in excess of the tuition that would have been paid to the participating educational institution;~~

~~(2) Salaries and related costs of instructors who are employees of the contractor;~~

~~(3) Training materials and textbooks; and~~

~~(4) Straight-time compensation of each employee~~ **[b] The cost of salaries** for time spent attending **[undergraduate level classes or part-time graduate level]** classes during working hours not in excess of 156 hours per year **[is unallowable, except when unusual]** where circumstances do not permit the operation of classes or attendance at **[such]** classes after **[outside of]** regular working hours. In unusual cases, the period may be extended (see paragraph (h) of this subsection).

~~(d) Full-time education.~~ **[c]** Costs of tuition, fees, training materials and textbooks[,] ~~(but not subsistence, salary, or~~ **[and]** any other emoluments) **[payments]** in connection with full-time **[graduate level]** education, including that provided at the contractor's own facilities, at a

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~~postgraduate but not undergraduate college level, are [un]allowable only when the course or degree pursued is related to the field in which the employee is working or may reasonably be expected to work and are limited to a total period not to [for any portion of the program that exceed [two]2 school years or the length of the degree program, whichever is less, for each employee so trained.~~

~~(e) *Specialized programs.* Costs of attendance of up to 16 weeks per employee per year at specialized programs specifically designed to enhance the effectiveness of managers or to prepare employees for such positions are allowable. Such costs include enrollment fees and related charges and employees' salaries, subsistence, training materials, textbooks, and travel. Costs allowable under this paragraph do not include costs for courses that are part of a degree-oriented curriculum, which are only allowable pursuant to paragraphs (c) and (d) of this subsection.~~

~~(f) *Other expenses.* Maintenance expense and normal depreciation or fair rental on facilities owned or leased by the contractor for training purposes are allowable in accordance with 31.205-11, 31.205-17, and 31.205-36.~~

~~(g) *Grants.* [d] Grants to educational or training institutions, including the donation of facilities or other properties, scholarships, and fellowships are considered contributions and are unallowable.~~

~~(h) *Advance agreements.*~~

~~(1) Training and education costs in excess of those otherwise allowable under paragraphs (c) and (d) of this subsection, including subsistence, salaries or any other emoluments, may be allowed to the extent set forth in an advance agreement negotiated under 31.109. To be considered for an advance agreement, the contractor must demonstrate that the costs are consistently incurred under an established managerial, engineering, or scientific training and education program, and that the course or degree pursued is related to the field in which the employees are now working or may reasonably be expected to work. Before entering into the advance agreement, the contracting officer shall give consideration to such factors as—~~

- ~~(i) The length of employees' service with the contractor;~~
- ~~(ii) Employees' past performance and potential;~~
- ~~(iii) Whether employees are in formal development programs; and~~
- ~~(iv) The total number of participating employees.~~

~~(2) Any advance agreement must include a provision requiring the contractor to refund to the Government training and education costs for employees who resign within 12 months of completion of such training or education for reasons within an employee's control.~~

~~(i) [e] Training or education costs for other than bona fide employees. Costs of tuition, fees, textbooks, and similar or related benefits provided for other than bona fide employees are unallowable, except that the costs incurred for educating employee dependents (primary and~~

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secondary level studies) when the employee is working in a foreign country where [suitable] public education is not available ~~and where suitable private education is inordinately expensive~~ may be included in overseas differential [pay].

~~(j) *Employee dependent education plans.* Costs of college plans for employee dependents are~~ **unallowable. [(f) Contractor contributions to college savings plans for employee dependents are unallowable.]**